

Message Text

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17

ACTION EA-10

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NSAE-00 NSC-05 OMB-01 PM-03 USIA-06 SAM-01 OES-03

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3479

INFO AMEMBASSY JAKARTA

C O N F I D E N T I A L MANILA 6719

E.O. 11652: GDS

TAGS: EINV, ENRG, RP

SUBJECT: CHAMBER OF COMMERCE SUGGESTS GOP NATIONALIZE OIL INDUSTRY

1. CHAMBER OF COMMERCE OF THE PHILIPPINES (CCP), LARGEST BUSINESS ASSOCIATION IN THE COUNTRY, WITH 4,500 MEMBERS, HAS PROPOSED NATIONALIZATION OF THE OIL INDUSTRY. PROPOSAL BILLED AS ONE OF TWO WAYS TO ACHIEVE LOWER ENERGY COSTS FOR PRIORITY INDUSTRIES. ALTERNATIVE APPROACH WAS TO PERMIT DUTY FREE OIL IMPORTS.38CCP POSITION REPORTEDLY WAS SUBMITTED TO A SPECIAL CABINET COMMITTEE ESTABLISHED UNDER NEDA DIRECTOR-GENERAL GERARDO SICAT TO EXAMINE QUESTION OF OIL PRICE INCREASES. CCP RECOMMENDTION WAS REPORTED IN BULLETIN TODAY ON MAY 16 ALONG WITH LEAD STORY ON INCREASES IN PRICES OF OIL PRODUCTS (REPORTED SEPTEL). TEXT OF CCP PROPOSAL BEING POUCHED EA/PHL.

2. STATED OBJECTIVE OF CCP PROPOSALS WAS TO AMELIORATE IMPACT OF CONTINUING OIL PRICE INCREASES ON ECONOMY BY PROVIDING FOR LOWER ENERGY COSTS OF PRIORITY INDUSTRIES.

TWO SOLUTIONS WERE --

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QUOTE A) NATIONALIZATION OF THE PETROLEUM INDUSTRY SO THE

PROFIT MOTIVE CAN COME ONLY AS A SECONDARY OBJECTIVE AND THE ESSENTIAL ENERGY NEEDS OF THE ECONOMY CAN BE MET EVEN IF THE STATE CORPORATION HAS TO ABSORB LOSSES; OR
B) DUTY-FREE OIL IMPORTS PLUS TAX EXEMPTIONS TO ESSENTIAL INDUSTRIES HEAVILY DEPENDENT ON CHEAP ENERGY FOR THEIR OPERATIONS. UNQUOTE

3. DR. LOURDES SANVICTORES, FIRST VICE PRESIDENT OF CCP AND ALSO ECONOMICS PROFESSOR AT SANTO TOMAS, EXPLAINED TO EMBOFF THAT CCP PROPOSAL WAS ADOPTED WITHOUT DISSENT BY OFFICERS. SHE TOOK PAINS TO EMPHASIZE THAT CCP WAS CONCERNED ABOUT ADVERSE IMPACT OF CONTINUING OIL PRICE INCREASES ON ECONOMY AND WAS PRESSING GOVERNMENT TO HOLD PRICES DOWN. CHAMBER RATIONALIZED THAT SINCE OIL COMPANIES STATED THEY WERE LOSING MONEY AT CURRENT PRICES WHILE GOVERNMENT HARD PRESSED TO CONTAIN INFLATION, GOVERNMENT SHOULD RELIEVE (SIC) PRIVATE OIL COMPANIES OF BURDEN AND ABSORB LOSSES INVOLVED IN KEEPING ENERGY COSTS DOWN. SANVICTORES CONCLUDED THAT ALTHOUGH CCP BASICALLY AGAINST GOVERNMENT INTERVENTION IN BUSINESS, PHILIPPINE ECONOMY IS NOW "MANAGED PRIVATE ENTERPRISE SYSTEM" AND BEST WAY TO ENSURE CONTROL OVER OIL PRICES IS TO HAVE GOP EBNTRLO OIL INDUSTRY, AND SUBSIDIZE ENERGY COSTS.

4. COMMENT: CCP IS A STRANGE SOURCE FOR THESE PROPOSALS AND THE NARROWLY SELF-SERVING CHARACTER OF THEM IS OBVIOUS. FROM CHAMBER'S VIEWPOINT MAIN TARGET IS NOT OIL INDUSTRY BUT BOTTOM LINE, AND THE SHORTEST PATH TO HELP IS THE SECOND PROPOSAL TO ELIMINATE IMPORT DUTIES OR OTHERWISE FIND WAYS TO SUBSIDIZE INDUSTRIAL ENERGY COSTS. GIVEN PREDATORY URGES OF A FEW WELL-KNOWN PLAYERS SUCH AS PNOC CHAIRMAN VELASCO, AND THE PERTAMINA ENVY THAT PERVADES A FEW GOVERNMENT OFFICES, CCP MAY BE PLAYING A MORE DANGEROUS GAME THAN IT REALIZES. OIL COMPANY SOURCES SO FAR HAVE NO COMMENT ON CCP PROPOSAL, ALTHOUGH IT IS WELL-KNOWN THAT US FIRMS VIEW THE PRICE/COST OUTLOOK WITH PESSIMISM, AND AT LEAST ONE IS GIVING SERIOUS THOUGHT TO SEEING OUT.
SULLIVAN

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